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RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 6134
RUEHBJ/AMEMBASSY BEIJING 3823
RUEHKO/AMEMBASSY TOKYO 3682
RUEHIT/AMCONSUL ISTANBUL 4376
RUEKJCS/JOINT STAFF WASHDC
RUEAIIA/CIA WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RHEFDIA/DIA WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RHEHNSC/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUCNDT/USMISSION USUN NEW YORK 1418
RUEHVEN/USMISSION USOSCE 4307

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000071

SIPDIS

STATE FOR SCA/CEN; EEB;
ENERGY FOR EKIMOFF/BURPOE/COHEN
COMMERCE FOR DSTARKS/EHOUSE

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TAGS: [EPET](#) [ECON](#) [PGOV](#) [EINV](#) [BTIO](#) [RS](#) [TX](#)
SUBJECT: TURKMENISTAN: LUKOIL BIDDING TIME FOR OFFSHORE DEAL

REF: A. ASHGABAT 17
[1](#)B. 09 ASHGABAT 1318

Classified By: Charge Sylvia Reed Curran for reasons 1.4 (b) and (d).

[1](#)1. (C) On January 15, econoff met with the director of LukOil's office in Ashgabat, Andrey Podbolotov, to discuss the company's prospects in Turkmenistan. Podbolotov stated that LukOil was still very much interested in developing an offshore exploration block in the Caspian Sea. He thought that the other large foreign energy companies in the country were wasting their time trying to obtain onshore development rights, given that the Turkmen Government seemed set on developing the South Yoloten gas fields via service contracts (ref A). He added that his company was currently pursuing Blocks 19 and 20 with its partner ConocoPhillips. (NOTE: ConocoPhillips told post it was no longer jointly pursuing those blocks with LukOil and had instead entered a partnership with the UAE company Mubadala, after Turkmen President Berdimuhamedov reportedly bluntly told ConocoPhillips executives to pursue offshore blocks without LukOil (ref B). END NOTE.)

[1](#)2. (C) The LukOil representative reported that business in Turkmenistan is slow going, and that LukOil has been unable to meet with Deputy Chairman for Oil and Gas Baymyrat Hojамuhammedov for many months. Nevertheless, Podbolotov reported that he meets with the Head of the Turkmen State Agency for the Management and Use of Hydrocarbon Resources Yagshygeldi Kakayev on a regular basis, and that LukOil is still receiving positive signals from Kakayev that an offshore deal is possible. Moreover, the LukOil rep felt that Turkmenistan still had a lot of untapped resources, and LukOil planned to be in Ashgabat if and when the GOTX becomes more receptive to business with large foreign energy companies.

[1](#)3. (C) Podbolotov opined that the GOTX is afraid of doing business with large international oil companies (IOC), and that most IOCs with a presence in Ashgabat are just waiting

for a change in the government's onshore development ban. When asked if he thought the Turkmen Government considered LukOil to be a "Russian" company, he responded that the GOTX knows "full well" that LukOil is a private company that has a large U.S. partner, ConocoPhillips. He added that Gazprom is indeed a political, Russian company, but LukOil bases its business decisions on economics rather than politics. He admitted that it was possible the Turkmen consider LukOil to be a representative of the Russian government, but stressed that it was unlikely. He felt that LukOil's failure to get an offshore deal to date was due to LukOil's size and not due to its Russian affiliation. He cited the smaller Russian company Itera as proof of his theory, explaining that Itera was both a smaller company and also Russian-based, but it still was awarded Block 21 in the Caspian. (Note: ConocoPhillips and LukOil previously submitted a joint proposal to develop blocks 19, 20, and 21, before Itera was awarded block 21. End Note)

14. (C) Podbolotov stressed that despite LukOil's current lack of progress, Turkmenistan had the most commercial potential among Central Asian countries. He compared Turkmenistan to a "rich chocolate candy," while Kazakhstan and Uzbekistan were more like "caramel candies." He opined that even Turkmenistan's oil resources had been underestimated, while the countries vast gas reserves made Turkmenistan more than "worth the wait." He was confident that if LukOil were awarded blocks 19-20, the company had an excellent shot at finding something big. He added that LukOil has a lot of investments in Iraq that will result in big payoffs. Turkmenistan is one of LukOil's most sought after markets,

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and the company has earmarked considerable money for hydrocarbon development in the Caspian already.

15. (C) COMMENT. Despite several allusions to Turkmenistan's enormous commercial potential, the LukOil rep in Ashgabat could report little progress toward on offshore deal to date. He referred to a continued partnership with ConocoPhillips to develop blocks 19 and 20, despite word from ConocoPhillips that it would partner with UAE-based Mubadala instead. Nevertheless, it appears that LukOil intends to continue to vie for offshore blocks with or without ConocoPhillips, stressing that Turkmenistan has unlocked hydrocarbon production potential that the company cannot ignore. END COMMENT.
CURRAN